MELCOR DEVELOPMENTS LTD.

Annual Report 2002

Built on the strength of our people for 80 years.






Built on the strength of our people for 80 years.

Melcor Developments Ltd. (Melcor) traces its history back to 1923 when Mr. L.T. Melton formed Stanley Investment Company for the sale of real estate. Since then, Melcor has evolved from a real estate brokerage firm with 50 offices in Western Canada to Alberta's Premier Community Developer. These communities serve the needs of families incorporating schools, playgrounds, trail systems and other amenities for residential communities, office buildings and retail stores which provide employment and services and golf courses which provide recreational enjoyment.

The Company's success over the past 80 years is attributable to its dedicated employees who have proudly contributed to Melcor's longevity by adapting to the challenges of changing market conditions.

A significant number of our employees are featured which also includes the number of years with Melcor and the number of years of industry experience.

Contents

Melcor Developments Ltd. is primarily engaged in the following activities:

- the acquisition, planning, and development of urban communities and the subsequent marketing and sale of single family, multiple family and commercial / industrial lots in Alberta in the metropolitan areas of Calgary, Edmonton, Lethbridge and Red Deer and in Arizona;
- the development of income producing properties in Alberta;
- the ownership and management of income producing properties in Western Canada; and
- the ownership and management of two championship golf courses in the Edmonton area.

Notice of Annual Meeting

The annual meeting of Shareholders will be held at The Fairmont Hotel Macdonald, Wedgwood Room, 10065-100 Street, Edmonton, Alberta, Canada on the 25th day of April, 2003, at 11:00 a.m. MDT.

1 Timothy C. Melton
Executive Chairman
34 years of service
Director

2 Ralph B. Young
President & Chief Executive Officer
32 years of service
Director

3 W. Garry Holmes
Director

4 Andrew J. Melton
Director

5 Lou D. Hyndman
Director

6 William D. Grace
Director



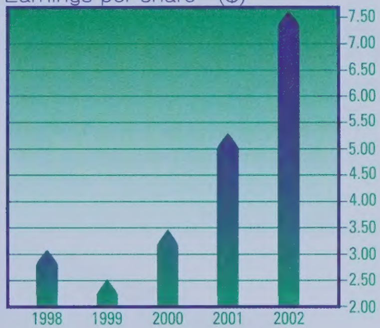



Financial Highlights

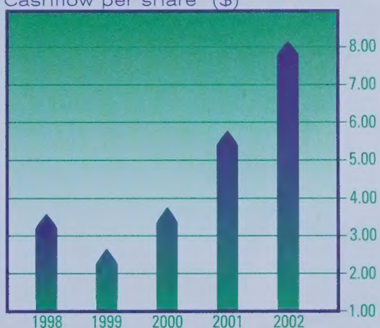
($)	2002	2001
Revenue	**110,565,000**	82,607,000
Earnings	**23,089,000**	15,971,000
Cash flow from operations before working capital changes	**25,053,000**	17,437,000
Assets	**231,795,000**	177,218,000
Shareholders' equity	**126,511,000**	106,718,000

Per Common Share		
Basic earnings	**7.58**	5.26
Diluted earnings	**7.41**	5.21
Cash flow from operations before working capital changes	**8.22**	5.74
Book value per share	**41.45**	35.04
Dividends paid	**1.00**	0.90

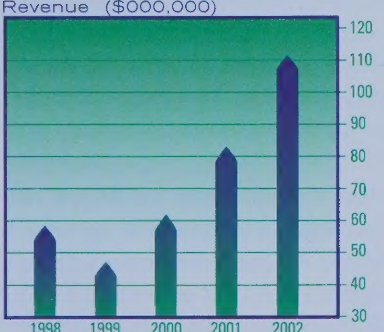
Earnings per share ($)



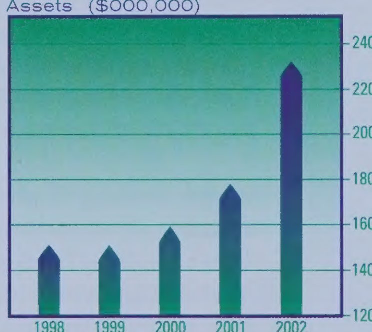
Cashflow per share ($)



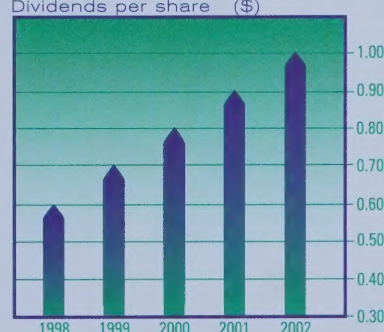
Revenue ($000,000)



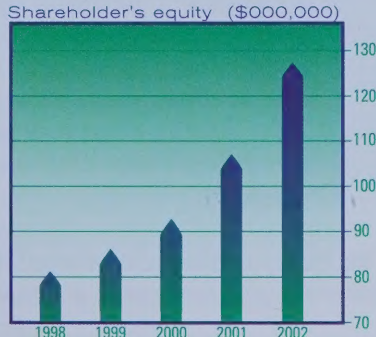
Assets ($000,000)



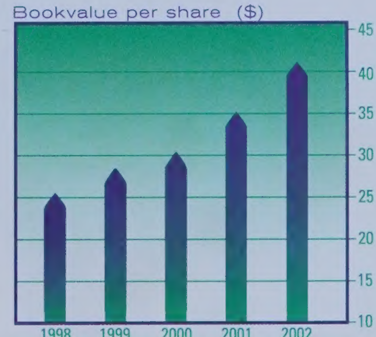
Dividends per share ($)



Shareholder's equity ($000,000)



Bookvalue per share ($)



7 Robert Stollery
Director

8 Bruce Saville
Director

9 W. Peter Daly
Vice-President, Land Development Division
30 years of service
31 industry experience

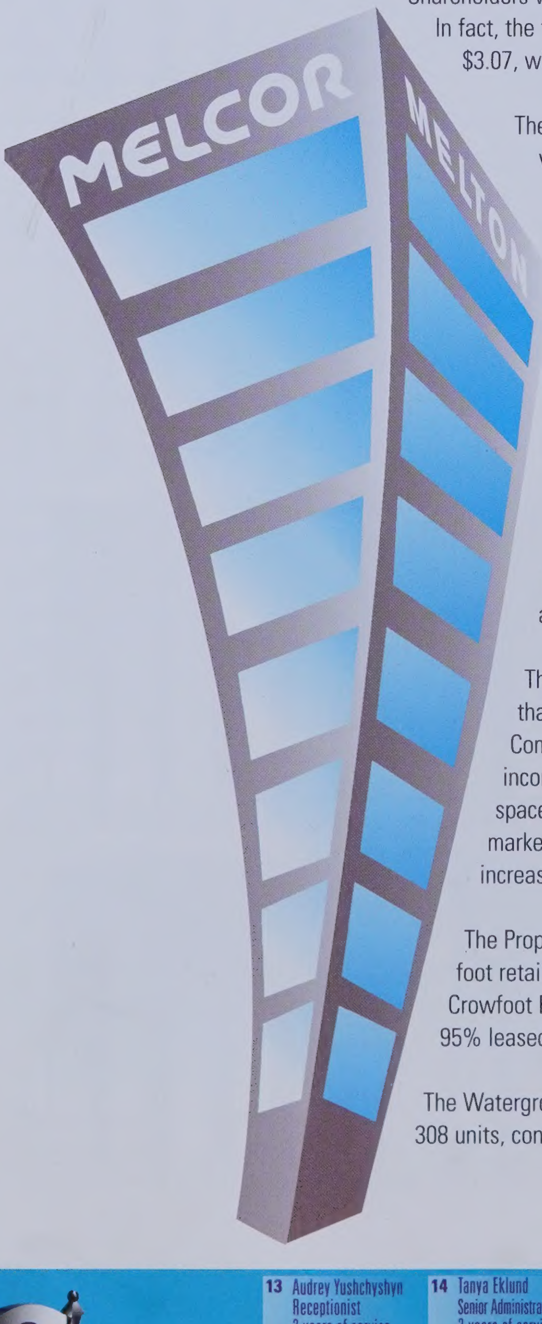
10 Michael D. Shabada
Vice-President, Finance & CFO
12 years of service
21 industry experience

11 Brett A. Halford
Vice-President, Administration
26 years of service
31 industry experience

12 Trudy Costigan
Executive Assistant & Office Administrator
3 years of service
20 industry experience

Report to Shareholders

On behalf of the Board of Directors, we are pleased to report that 2002 was an exceptional year for the Company. Net earnings for the year were up 44% to a record high of $23,089,000 or $7.58 per share compared to $15,971,000 or $5.26 per share in 2001. Cash flow from operations was up 45% at $8.34 per share compared to $5.74 per share in the prior year.



Shareholders were advised that a strong fourth quarter would produce another record year. In fact, the fourth quarter produced revenue of $38,279,000 and earnings per share of $3.07, which were the highest quarterly earnings in the Company's history.

The Community Development Division recorded sales of $101,422,000 in 2002 versus $73,778,000 in the prior year. Sales revenues included the sale of 1,821 residential lots and 32 acres of commercial and multi-family sites. Residential lot sales were strong in all of the Company's subdivisions with the Edmonton and Red Deer regions recording the greatest increases in activity. Twenty-eight new phases of development were brought to market in the Company's established communities where our committed builder customers acquired lots to meet strong demand from house buyers.

It is an objective of the Company to ensure that adequate replacement lands are acquired to replenish land inventories needed for future development and to sustain earnings. In this regard, the past year was an active one with the acquisition of 597 acres in the Calgary region, 285 acres in Edmonton, 160 acres in Red Deer, 50 acres in Lethbridge and 119 acres in Kelowna.

There has been a significant increase in capital assets over the past year that relate to the acquisition and development of commercial properties in the Company's Investment Property Division. The size of the Division's portfolio of income producing properties has increased to 741,604 square feet of rentable space. The majority of these are office properties located in the Edmonton market. Based on the trend of higher occupancy and lease rates, prospects for increased contribution from this Division appear promising.

The Property Development Division completed the construction of a 68,000 square foot retail and office project in northwest Calgary. This property, referred to as Crowfoot Business Centre, is the new home of Melcor's Calgary operation and is 95% leased.

The Watergrove Manufactured Home Community, located in Calgary and comprising 308 units, continues to operate at capacity and provides steadily increasing earnings.

13 Audrey Yushchyshyn
Receptionist
2 years of service
2 industry experience

14 Tanya Eklund
Senior Administrative Assistant
2 years of service
13 industry experience

15 Karen Albarda
Manager, Accounting Dept.
23 years of service
28 industry experience

16 Kevin McGee
Senior Accountant
13 years of service
24 industry experience

17 Kathy Kashuba
Senior Accountant
4 years of service
11 industry experience

18 Kim Sherman
Senior Accountant
1 years of service
4 industry experience

The Lewis Estates and The Links at Spruce Grove golf courses also continue to operate satisfactorily and have continued to increase their contributions to earnings.

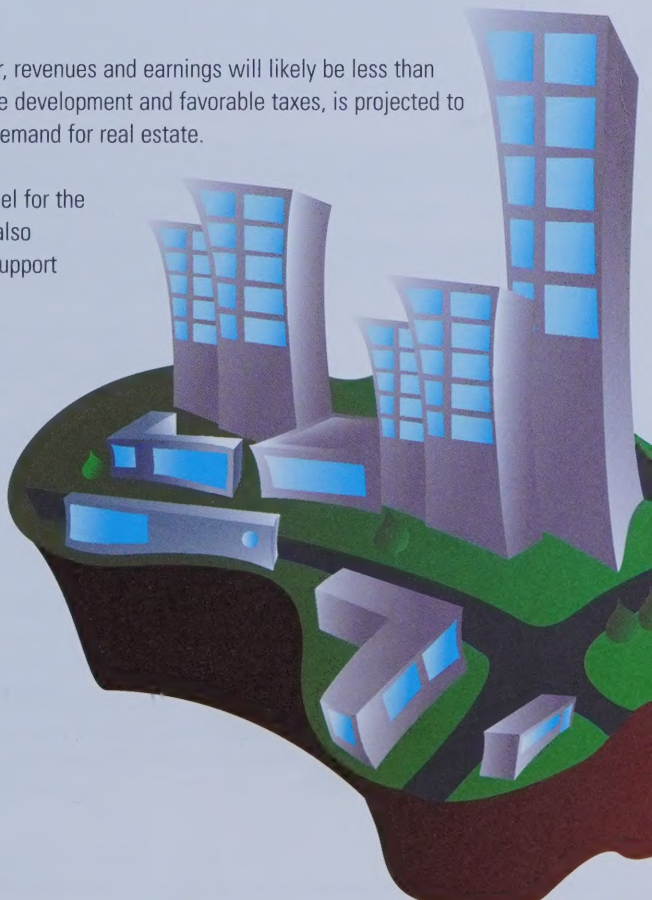
Shareholders received dividends totaling $1.00 per share in 2002 compared with $.90 per share in 2001. The Board of Directors believes it is important to provide reasonable dividends to shareholders, and at the same time, ensure the Company has adequate finances for Company operations and acquisitions.

Mr. Bob Stollery, who has served as Director since 1994, will be retiring from our Board. Mr. Stollery has made an outstanding contribution to the Company as a Director over the past 9 years and his expertise, support and guidance were greatly appreciated. We extend to him our thanks and best wishes for continued happiness and success.

This year, 2003, marks the 80th Anniversary of the Company operations. In the Report to Shareholders it is our desire to recognize the valued contributions made by the Company's personnel over the years. We have often stated that the success the Company has enjoyed is attributable to our committed, capable and loyal employees. This acknowledgement is particularly applicable to Melcor's current team who have delivered two successive years of record earnings. We also recognize the important leadership role of the Board of Directors.

The outlook for the Company in 2003 continues to be positive, however, revenues and earnings will likely be less than the extraordinary 2002 levels. The Alberta economy, fuelled by resource development and favorable taxes, is projected to be strong. These factors together with low interest rates will sustain demand for real estate.

The Directors join with us in expressing our appreciation to all personnel for the excellent job they have done in contributing to Company success. We also extend our thanks to our customers and business associates for their support and confidence.



T.C. Melton
February 24, 2003

Ralph Young

R.B. Young
February 24, 2003

19 Jori Soetaert
Accounting Assistant-Receivables
6 years of service
8 industry experience

20 Carrie Hodder
Accounting Assistant-Payables
2 years of service
18 industry experience

21 Bob Millar
Systems Administrator
2 years of service
3 industry experience

22 Tammy Winnick
Administrator, Conveyancing
5 years of service
15 industry experience

23 Laura Van Driel
Conveyancing Assistant
5 years of service
5 industry experience

24 Vosh Manuel
Office Assistant
4 years of service
4 industry experience

25 Randy Sieben
Vice-President & Regional Manager
11 years of service
17 industry experience

Management's Discussion and Analysis

CORPORATE OVERVIEW

Melcor Developments Ltd. "Melcor", which traces its history back to 1923, has been a public company since 1968. It operates in Alberta in the metropolitan areas of Calgary, Edmonton, Lethbridge and Red Deer and in Arizona. Its diversified operations include:

- the acquisition of raw land, which is held for future development until market conditions warrant the planning, servicing and marketing of urban communities which is then sold in the form of single family, multiple family and commercial / industrial lots;
- the development of income producing properties in Alberta;
- the ownership, development and management of commercial property in Western Canada including a manufactured home community in Calgary; and
- the ownership and management of two championship golf courses in the Edmonton area.

REVIEW OF OPERATING RESULTS

Net earnings for the year were $23,089,000 compared to prior year earnings of $15,971,000. Basic earnings per share at December 31, 2002 were $7.58, a 44% increase over 2001 earnings per share of $5.26. This represents the highest earnings per share for the Company in its history as a public company. Fourth quarter basic earnings of $3.07 per share was also a record high. Cash flow from operations before working capital changes was $8.34 per share (2001 - $5.74).

The increase in revenue and net earnings was the result of an increase in land sales. Single-family housing starts in the municipalities in Alberta where Melcor operates increased by 51% during the current year over the prior year.

COMMUNITY DEVELOPMENT

The Community Development Division is responsible for the acquisition, planning, development and marketing of urban communities. Although the division predominantly develops mixed-use residential communities, it also develops large-scale commercial and industrial centers in the Edmonton and Calgary regions. Residential lots and parcels are marketed through selected homebuilders that purchase sites through agreements payable that are usually due within one year of sale.

Sales Activity

Total sales for the division were $101,422,000 in 2002 versus $73,778,000 in the prior year. During the year, twenty-eight subdivisions were developed in seventeen communities. The number of residential lots sold in 2002 increased by 50% over 2001 sales. All Canadian regions saw an increase in the number of lots sold (as set out in the following table).

Residential lot sale history (including joint ventures at 100%)

	2002	2001	2000	1999	1998
Edmonton	**775**	437	348	260	384
Red Deer	**455**	268	123	162	209
Calgary	**504**	459	421	310	379
Lethbridge	**87**	48	64	74	44
Arizona	–	2	3	7	1
	1,821	1,214	959	813	1,017

Residential lot inventory (including joint ventures at 100%)

	2002	2001
At beginning of the year	**859**	1,012
New developments	**1,575**	1,061
Sales	**(1,821)**	(1,214)
At end of the year	**613**	859

Multi-family and commercial sales (including prorata joint venture interests and intersegment transactions)

	Multi-family and Commercial Acres	**Sales ($)**	**Sale of Non-Strategic Lands (Acres)**
2002	**32**	**8,937,000**	**17**
2001	44	16,653,000	152
2000	33	9,719,000	3
1999	33	7,341,000	29
1998	26	8,845,000	–

26 Kristine Sargent
Administrator
10 years of service
15 industry experience

27 Shauna Blackburn
Development Manager
6 years of service
6 industry experience

28 Jordan Davis
Development Manager
2 years of service
5 industry experience

29 Carol Wallace
Assistant Development Manager
18 years of service
18 industry experience

30 Chad Billyard
Assistant Development Manager
1 years of service
1 industry experience

31 Brian Baker
Divisional Manager
6 years of service
6 industry experience

Land inventory (in acres)	**2002**	2001
At beginning of the year	**4,290**	4,403
Purchases	**1,201**	259
Sales	**(17)**	(152)
Developed	**(277)**	(220)
At end of the year	**5,197**	4,290

Land Acquisitions

The acquisition of land for future development is based upon our anticipation of market demand and development potential primarily within five years. Land purchases during the year were:

597 Acres in Calgary Region (including 88 acres of option lands)
285 Acres in Edmonton Region
160 Acres in Red Deer Region
50 Acres in Lethbridge Region
119 Acres in Kelowna Region

At December 31, 2002, the Company had paid for 404 acres of land with closing in early 2003. These purchases did close subsequent to year end except for 165 acres in Calgary which will be finalized during the first half of 2003. These acres are included in the acquisition numbers above.

Risk Factors

Residential lot sales are influenced by the demand for new housing which is impacted by interest rates, growth in employment, immigration, new family units and the size of these units. Our ability to bring new communities to the market is impacted by municipal regulatory requirements and environmental considerations which affect the planning, subdivision and use of land. The lengthy planning and approval process can take up to eighteen months. During this period, the market conditions in general and / or the market for lots in the size and price range in our developments, may change dramatically. Management must manage its assets to ensure that it has adequate future lands to develop by balancing it's inventory of long, medium and short term lands against the cost of acquiring and holding these lands.

Management attempts to mitigate these risks by:

- developing in the vicinity of major population and employment centres in Alberta where we have developed land for decades;
- making the acquisition of land for future development a priority;
- marketing lots in various sizes and price ranges in all regions in which we carry on development programs;
- monitoring market conditions by maintaining close contacts with our customers, industry associations and forecasting agencies;
- managing and participating in Joint Ventures;
- contracting professional consultants as required rather than having them on staff; and
- practicing a strong environmental program to minimize risk on acquisitions and development.

PROPERTY DEVELOPMENT

During 2001, the Company became active in property development whereby sites are acquired from other divisions at fair market value with the goal of creating additional value by developing the sites into revenue producing properties. Once completed (75% leased) they are transferred to the Investment Property Division which will hold and manage the asset.

The current year activities included the completion of Crowfoot Business Centre in Calgary which is 95% leased at December 31, 2002 (including occupancies to February 2003). This asset was transferred to the Investment Property Division on November 1, 2002.

The division is in the planning phase for the development of sites in Spruce Grove, Leduc, Calgary and Chestermere. The Company expects to commence development in Leduc by the third quarter of 2003.

Risk Factors

This division is subject to risks that would normally be associated with the construction industry combined with the normal leasing risks that the Company faces in the Investment Property Division. The Company has to manage the overall costs of the project, the quality of the construction and the suitability of the project in relation to the needs of the tenants who will occupy the completed building. The Company is also subject to additional holding costs if the asset is not leased out on a timely basis.

Management attempts to mitigate these risks by:

- hiring professional consulting firms to aid in the planning and design of the project;
- developing in the vicinity of major population and employment centres where the Company conducts business and owns similar assets;

32 Terry Jensen
Administrative Assistant
20 years of service
24 industry experience

33 Darin Rayburn
Senior Divisional Manager
1 years of service
12 industry experience

34 Cindy Harris
Senior Property Manager
2 years of service
15 industry experience

35 Pat Melton
Leasing Manager
3 years of service
5 industry experience

36 Emma Pears
Senior Administrative Assistant
23 years of service
28 industry experience

37 Jodie Vella Gregory
Assistant
1 years of service
1 industry experience

38 Mike Dziekan
Building Operator
13 years of service
13 industry experience






- using professional consultants and realtors to market the new projects;
- contracting reputable construction companies;
- analysing market conditions and evaluating potential customers; and
- constantly monitoring leasing activity and construction progress.

INVESTMENT PROPERTY

The Company owns and manages a portfolio of 18 commercial properties and a 308-unit manufactured home community. See page 21 of this annual report for a detailed listing of investment properties. Divisional earnings were:

$	**2002**	2001
Rental and other operations	**980,000**	714,000
Loss on sale of undeveloped site	–	(504,000)
Gain on sale of building	**991,000**	–
Total divisional earnings	**1,971,000**	210,000

The increase in earnings from rental operations is due to the expansion of the portfolio and improving market conditions. The program to perform some major repairs and renovations to several properties in the portfolio continued during 2002 and is expected to be ongoing through to the end of 2003.

During the year the Company sold a 64,173 square foot multi-use building and recorded a gain of $991,000.

The Company also had the following purchases in Edmonton:

- suburban warehouse known as "The Glentel Building" (15,968 square feet) adjacent to the Company's Westgate Business Park (acquired July 1, 2002);
- parking lot (7,500 square feet) one block north of the Company's existing 104 Street parking lot (acquired November 1, 2002); and
- suburban office building known as "The Associated Centre" (78,435 square feet) located in northwest Edmonton on St. Albert Trail (acquired December 31, 2002).

Property Summary (in square feet / including Joint Ventures at 100%)	**2002**	2001
Office and multi-use	**553,288**	495,686
Retail	**188,316**	147,220
	741,604	642,906

OPERATING RESULTS

The Company has been striving to achieve improvement in the return on investment of those assets controlled by this Division. This is being achieved by:

- increasing the leverage of its assets;
- adding quality assets to the portfolio; and
- investing in/upgrading its existing assets so as to achieve increased occupancy and rental rates.

The Division is beginning to achieve improved results as a result of actions taken over the last three years. The analysis below show that current year revenue, earnings and returns were at their highest levels over the past 5 years.

Earnings History ($000's)	**2002**	2001	2000	1999	1998
Rental revenue	**7,651**	6,218	4,877	4,123	3,955
Operating expenses	**(4,702)**	(3,834)	(2,854)	(2,065)	(1,722)
	(2,949)	(2,384)	(2,023)	(2,058)	(2,233)
Interest expense	**(1,219)**	(1,017)	(1,014)	(1,077)	(1,139)
Depreciation	**(549)**	(475)	(390)	(489)	(411)
Administrative expenses	**(201)**	(178)	(460)	(161)	(218)
Earnings from operations	**980**	714	159	331	906
Gain on sale of buildings	**991**	–	464	–	–
Gain/(loss) on land sale	–	(504)	–	–	441
Net earnings	**1,971**	210	623	331	906

39 Lanny Blench
Building Operator
3 years of service
15 industry experience

40 Claire Dettwiler
Building Operator
2 years of service
2 industry experience

41 Bill Froehlich
Building Operator
30 years of service
56 industry experience

42 Shannon Kinnear
Building Operator
2 years of service
3 industry experience

43 Patricia Luke
Building Operator
14 years of service
14 industry experience

44 Ben Williams
Building Operator
2 years of service
5 industry experience







Investment History ($000's)	**2002**	2001	2000	1999	1998
Net book value (Note 4)	**39,624**	34,283	22,065	20,725	20,503
Financing on commercial properties	**29,280**	15,539	11,346	13,659	12,411
Net investment in commercial properties	**10,344**	18,744	10,719	7,066	8,092
Return on investment from operations	**9.5%**	3.8%	1.5%	4.7%	5.7%
Total return on net investment	**19.1%**	1.1%	5.8%	4.7%	11.2%
% assets financed	**73.9%**	45.3%	51.4%	65.9%	60.5%

The above are at December 31 and are not adjusted for the acquisitions/disposals of assets or the financing/repayment of debt made at various times through the year.

The occupancy rate for buildings was 83% in 2002 (2001 – 85%). Management believes that the occupancy rate for 2003 will increase over the 2002 rate.

Leases maturing (in square feet)	2003	2004	2005	2006	2007
Office and Multi-use	126,373	47,240	68,411	54,120	113,448
Retail	40,710	12,771	14,089	12,357	45,256
	167,083	60,011	82,500	66,477	158,704

Risk Factors

The Investment Property Division is subject to the market conditions in the geographic areas where it owns properties. As these market conditions improve, the ability to achieve higher occupancy rates also improves. These market conditions are influenced by outside factors such as government policies, demographics and employment patterns, the affordability of rental properties, competitive leasing rates and long-term interest and inflation rates.

Management attempts to mitigate these risks by:

- owning properties in the vicinity of major population and employment centres, (normally in areas where we also develop land for resale);
- diversifying the type of investment properties we own;
- managing and participating in Joint Ventures;
- purchasing properties that have low capital costs, thereby allowing the Division to obtain a reasonable return even in a competitive market;
- obtaining long-term, fixed-rate financing when the features of the specific property meet those conditions; and
- managing our buildings so as to have competitive operating costs.

RECREATION PROPERTIES

The Company manages two 18-hole golf courses, The Links at Spruce Grove and Lewis Estates Golf Course. Both golf courses had successful years. Consolidated revenue increased by 7.7% and earnings increased by 14.0%.

Capital investment in the golf courses is $2,788,000.

Risk Factors

Golf course results are subject to weather, number of playing days, competition from other courses, the amount of disposable income available to customers to spend on recreational activity, popularity of the sport and the cost of providing desirable playing conditions of the course.

Management attempts to mitigate these risks by:

- owning golf courses near high population areas;
- keeping green fees competitive, yet charging adequately to maintain a high standard of course conditions;
- servicing the company golf tournament business, which increases the number of sold out days and provides revenue on marginal weather days;
- building good practice facilities at the courses and by providing excellent professional golf instructions at the course; and
- practicing efficient, courteous and professional customer relations to encourage patrons to return.

45 Debbie Bruce
Office Assistant
2 years of service
2 industry experience

46 Dave Poppit
Vice-President,
Special Projects
28 years of service
30 industry experience

47 Kent Hystad
Vice-President &
Regional Manager
9 years of service
10 industry experience

48 Bill Hodgson
Senior Regional Manager
11 years of service
34 industry experience

49 Amy Lamme
Administrator
7 years of service
7 industry experience

50 Ruth Price
Administrative Assistant
4 years of service
4 industry experience

51 Kathy Melton
Marketing Manager
5 years of service
5 industry experience

ASSETS

The net book value of the Company's assets was $231,795,000 at the end of 2002, compared to $177,218,000 at the end of 2001. The major changes in assets are as follows (with note references to the consolidated financial statements):

- Agreements receivable (Note 2) are the balances due from the sale of developed land. The increase in agreements receivable of $13,390,000 (2002 - $57,094,000 versus 2001 - $43,704,000) is primarily a reflection of increased land sales during the year.
- Land is classified as land under development at the time that plan registration has been completed. In 2002, the Company developed twenty-eight new residential subdivisions with 1,575 lots compared with twenty-five new subdivisions with 1,016 lots in 2001. The decrease in land under development of $3,419,000 (2002 - $32,139,000 versus 2001 - $35,558,000) is a reflection of the single lot inventory which decreased from 859 lots at December 31, 2001 to 613 lots at December 31, 2002. During the same period, the inventory of multi-family/commercial sites increased from 55 acres to 68 acres.
- Land held for future development (Note 3) is an aggregate of raw land which, in some cases, may be several years from development, and unregistered projects and their related predevelopment costs. Predevelopment costs include, but are not limited to, regulatory approvals, planning, engineering and infrastructure servicing. The latter can be significant in instances where utilities or roadways must be constructed over expanses of raw land in order to bring services or access to subdivisions that are being fully developed. Land held for future development increased by $31,668,000 due to land acquisitions of $34,230,000, which were offset by transfers to land under development of $11,903,000 in land and a net increase of predevelopment costs of $7,852,000.
- Capital assets (Note 4) includes the assets of the Investment Property Division (18 commercial properties and a manufactured home community), the assets of the Property Development Division (properties under development), the assets of the Recreation Property Division (two golf courses in the Edmonton area) and the sundry capital assets of the other divisions. During the year, capital assets increased by $5,202,000 due primarily to the acquisition of three properties in Edmonton and construction costs relating to Crowfoot Business Centre which were partially offset by the sale of the Eastview Building.

LIABILITIES

Liabilities increased from $70,500,000 at the end of 2001 to $105,284,000 at the end of 2002 primarily due to increased borrowing activity. The major changes in liabilities include:

- Provision for land development costs is the unexpended portion of the cost required to complete a registered subdivision plan to service any given phase of development. The gross costs are recorded in land under development and are charged to cost of sales when the inventory is sold. The provision for land development costs can vary depending upon the timing of cash payments required to complete construction, the timing of construction work, the timing of new projects and the amount of construction work carried forward into the new year. The provision for land development costs increased by $7,392,000 during the year because of a combination of the above factors.
- Debt on land held for future development in the amount of $28,760,000 (Note 7) increased by $17,133,000 based on new debt of $22,564,000 on land purchased during the year less repayments of $5,431,000. New debt includes vendor financing of $10,286,000 and bank loans of $12,278,000.
- Debt on Capital assets in the amount of $31,170,000 (Note 8) reflects financing placed on capital assets (Note 4), which have a net book value of $33,757,000. The increase in debt of $14,571,000 is a result of the Company placing new financing on 4 properties generating net loan proceeds of $15,870,000, plus debt assumed of $1,971,000, less principal repayments of $3,270,000. Debt repayments includes $972,000 on an asset that was refinanced, $1,417,000 on an asset that was sold and $881,000 related to monthly principal payments.

RISK

The nature of the Company's business, along with 96% of its assets being located in Alberta, could make the Company subject to greater risks than companies that are more geographically diversified.

Various factors which are not in management's control can impact the Company's business. These factors include:

- interest and inflation rates;
- general economic conditions in the regions in which the Company operates;
- population growth and migration;
- job creation and employment patterns;

52 Guy Pelletier
Vice-President & Regional Manager
6 years of service
15 industry experience

53 Shauna Hansen
Administrator
2 years of service
10 industry experience

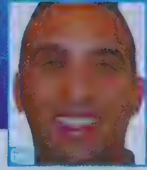
54 Neil Johnson
Senior Regional Manager
6 years of service
18 industry experience

55 Doug G. Alton
Manager
8 years of service
8 industry experience

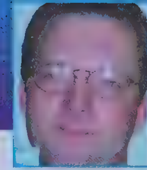
56 Bryan Copp
Manager/Head Professional
20 years of service
43 industry experience

57 Tom Van Tetering
Superintendent
6 years of service
15 industry experience









- consumer confidence;
- pricing of input costs;
- competitors strategies;
- government policies, regulations and taxation; and
- availability of financing for real estate assets.

Management believes that the economic outlook for Alberta is favourable and should continue as long as provincial and municipal governments practice fiscal policies that fuel migration into the economically strong Province of Alberta. The Company intends to continue its conservative policies on acquisitions and developments.

LIQUIDITY AND CAPITAL RESOURCES

The Company has an ongoing requirement for capital to finance its operations. The Company has an agreement with a major chartered bank, which replaced conventional project financing with a credit facility. Specific agreements receivable, specific lot inventory and a general security agreement are pledged as collateral for this credit facility. This credit facility may be terminated by the bank upon one year's notice. The facility limits can be modified to meet the Company's needs. The Company also has a credit facility to provide letters of credit.

At December 31, 2002 the Company had $23,900,000 (2001 - $13,100,000) in approved and undrawn facilities to cover its operations. Based on the consolidated assets and liabilities at December 31, 2002 (assuming loan limits were increased and existing loan rules were used), the Company has the potential to increase its credit facility to approximately $53,000,000 plus letters of credit. Since loan rules attract a monthly standby fee from the bank for loans approved but not used, the Company limits the credit facility to include only the amount it could require based on annual budget information and maximum cash requirements.

Financing opportunities for the Company's capital assets continue to be reviewed.

The Company's debt to equity ratio was 0.83:1 at December 31, 2002 compared to 0.66:1 at December 31, 2001.

Management believes that with the projected level of operations for 2003, our minimal capital commitments and the availability of funds under the established credit facility, the Company will have sufficient capital to fund its operations.

ASSUMPTIONS FOR 2003

The Company's Business Plan for 2003 is based upon the following assumptions:

- the Canadian economy will be slightly slower in 2003 compared to the exceptional level of economic activity achieved in 2002, with economic growth in Alberta to be higher than the national average;
- the population of Alberta will continue to increase;
- interest rates will increase marginally during the year as economic conditions improve; and
- the residential housing starts in Alberta will be about the same as in 2001 (i.e. about 25% lower than in 2002), with declines in Edmonton, Calgary and Red Deer.

This Management's Discussion and Analysis contains statements about expected future events and financial and operating results of the Company that are forward looking and subject to risks and uncertainties. Accordingly, the Company's actual results could differ materially from those expressed or implied by such statements. Such statements and information are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations generally. The Company disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

58 Brian Starks
Assistant Superintendent
6 years of service
8 industry experience

59 Walter Nelson
Mechanic
5 years of service
20 industry experience

60 Pierre Beauchemin
Manager/Head Professional
5 years of service
17 industry experience

61 Glen Andersen
Superintendent
17 years of service
24 industry experience

62 Brad Frunchak
Assistant Superintendent
5 years of service
5 industry experience

63 Norman Kay
Mechanic
13 years of service
16 industry experience

64 Rob Morrison
Maintenance Administrator
10 years of service
15 industry experience

Consolidated Statements of Earnings and Retained Earnings

For the years ended December 31 ($000's)	2002	2001
Revenue	**110,565**	82,607
Cost of sales	**(67,630)**	(50,612)
	42,935	31,995
Interest income	**1,716**	1,416
Interest expense (Note 12)	**(1,530)**	(1,765)
General and administrative expenses	**(8,062)**	(6,838)
Gain on sale of capital assets	**1,004**	34
Earnings before income taxes	**36,063**	24,842
Income tax expense		
Current	**(10,912)**	(8,203)
Future	**(2,062)**	(668)
	(12,974)	(8,871)
Net earnings for the year	**23,089**	15,971
Retained earnings, beginning of the year	**98,325**	85,099
Dividends	**(3,051)**	(2,738)
Cost of common shares purchased in excess of stated capital	**(176)**	(7)
Retained earnings, end of the year	**118,187**	98,325
Basic earnings per share (Note 11)	**7.58**	5.26
Diluted earnings per share (Note 11)	**7.41**	5.21

Consolidated Balance Sheets

As at December 31 ($000's)	**2002**	2001
ASSETS		
Cash and cash equivalents	**7,105**	1,325
Accounts receivable	**2,914**	2,912
Agreements receivable (Note 2)	**57,094**	43,704
Land under development	**32,139**	35,558
Land held for future development (Note 3)	**84,765**	53,097
Capital assets (Note 4)	**42,710**	37,508
Other assets	**5,068**	3,114
	231,795	177,218
LIABILITIES		
Bank operating loan (Note 5)	**839**	11,929
Accounts payable and accrued liabilities	**16,410**	11,116
Provision for land development costs	**13,763**	6,371
Debt on land under development (Note 6)	**770**	1,348
Debt on land held for future development (Note 7)	**28,760**	11,627
Debt on capital assets (Note 8)	**31,170**	16,599
Future income taxes (Note 9)	**13,572**	11,510
	105,284	70,500
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	**6,946**	6,705
Retained earnings	**118,187**	98,325
Currency translation adjustment	**1,378**	1,688
	126,511	106,718
	231,795	177,218

SIGNED ON BEHALF OF THE BOARD

PER: T.C. Melton ______ Director

PER: R.B. Young ______ Director

Consolidated Statements of Cash Flows

For the years ended December 31 ($000's)	2002	2001
Cash flows from /(used in) operating activities		
Net earnings for the year	**23,089**	15,971
Non cash items:		
Depreciation and amortization	**906**	832
Gain on sale of capital assets	**(1,004)**	(34)
Future income taxes	**2,062**	668
	25,053	17,437
Agreements receivable	**(13,390)**	(8,777)
Development activities (Note 17)	**13,372**	6,609
Operating assets and liabilities (Note 17)	**3,338**	1,900
Currency translation adjustment	**(310)**	473
	28,063	17,642
Cash flows from/(used in) investing activities		
Purchase of land held for future development	**(23,943)**	(3,481)
Proceeds from sale of capital assets	**2,072**	57
Capital asset additions	**(5,205)**	(11,974)
	(27,076)	(15,398)
Cash flows from/(used in) financing activities		
Bank operating loan repayments	**(11,090)**	(2,159)
Project loan advances	**80**	1,820
Project loan repayments	**(658)**	(858)
Non vendor take back loans on land purchased	**12,278**	-
Repayment of debt on land held for future development	**(5,431)**	(2,710)
Debt incurred on capital assets	**15,870**	5,415
Repayment of debt on capital assets	**(3,270)**	(997)
Dividends	**(3,051)**	(2,738)
Share capital issued	**256**	135
Common shares purchased	**(191)**	(8)
	4,793	(2,100)
Increase/(decrease) in cash and cash equivalents during the year	**5,780**	144
Cash and cash equivalents, beginning of the year	**1,325**	1,181
Cash and cash equivalents, end of the year	**7,105**	1,325

Notes to Consolidated Financial Statements

1. ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgement. Significant areas requiring the use of management estimates relate to the determination of provision for land development costs and potential impairment of assets. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Basis of consolidation

These consolidated financial statements include:

(i) The accounts of Melcor Developments Ltd. and its wholly-owned subsidiary companies (the "Company"):
   Melcor Developments Arizona, Inc.
   Melcor Lakeside Inc.
   Stanley Investments Inc.

(ii) Investments in eleven (2001 - eight) joint ventures are accounted for using the proportionate consolidation method.

b) Recognition of revenue

Revenue is recognized as follows:

(i) Community Development – revenue from the sale of land is recognized when a minimum 15% of the sale price has been received, the sale is unconditional and possession has been granted.

(ii) Property Development – revenue from the transfer of developed income properties to the Investment Properties Division are recorded when the property is 75% leased and occupied.

(iii) Investment Property – rental revenue from properties is recognized over the term of the related lease agreement as amounts become due.

(iv) Recreation Property – revenue from golf courses is recognized as services are provided.

c) Capitalization of costs

(i) Community Development – The Company capitalizes all direct costs relating to land held for future development and land under development projects. In addition, carrying costs such as interest on debt specifically related to the project, property taxes and interest on general debt considered applicable to the investment in the project are capitalized. Where the net realizable values of specific properties held for development do not exceed their capitalized carrying value, any additional interest and carrying costs relating to the properties are charged to current operations and are not capitalized. Administrative overhead expenses are not capitalized.

(ii) Property Development and Investment Properties – For acquired and constructed properties, building revenues and operating costs are capitalized as part of the cost of the property until the property is 75% occupied by tenants, subject to a reasonable period dependent on the nature of the property.

d) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term securities with maturity dates of less than nine months from the date they were acquired. These items are carried at cost or amortized cost as appropriate.

e) Land under development

(i) Land under development is recorded at the lower of cost and net realizable value.

(ii) The total estimated carrying, servicing and development costs (net of recoveries) are recorded as a liability at the time that plan registration has been completed. The unexpended portion of these costs is shown as "Provision for land development costs" on the balance sheet. Whenever the estimate is known to be materially different from the actual costs incurred, an adjustment is made to the liability with a corresponding adjustment to cost of sales and land under development.

(iii) The total costs of a project are allocated to individual lots sold on the basis of the anticipated selling price at the date of plan registration.

f) Land held for future development
Land held for future development includes the undeveloped land cost, the capitalized carrying costs related to holding the land and those development costs (net of recoveries) that have been incurred prior to the land being transferred to land under development. Land held for future development is recorded at the lower of cost and net realizable value. The cost of land and carrying costs are transferred to land under development on a prorated acreage basis to each phase of a project at the time that plan registration has been completed.

g) Capital assets
Capital assets are depreciated using the declining balance method of depreciation, over their estimated useful life, at rates from 4% to 30%. Investment properties are depreciated using the sinking fund method based upon an estimated useful life of 20 to 45 years and are recorded at the lower of cost less accumulated depreciation and net recoverable amount.

h) Other assets
Other assets includes prepaid expenses, sundry assets and tenant leasing costs. These assets are amortized on a straight line basis over the estimated useful lives or lease period.

i) Income taxes
Future income taxes are recognized at substantively enacted tax rates for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases.

j) Foreign currency translation
The Company's foreign operation is of a self-sustaining nature. Assets and liabilities of the foreign operation are translated at the exchange rates in effect at the balance sheet date and revenues and expenses are translated at average exchange rates for the year. Gains or losses on translation are shown as a separate component of shareholders' equity.

k) Per share amounts
The Company adopted the treasury stock method for calculation of diluted earnings per share under which deemed proceeds of the exercise of options are considered to be used to reacquire common shares at an average share price.

l) Stock option plan
Effective January 1, 2002, the Company adopted new CICA Handbook Section 3870 Stock-Based Compensation and Other Stock-Based Payments which recommends the fair value based methodology for measuring compensation costs. As permitted under the new rules, the Company did not adopt the provisions in respect of the fair value method of accounting for employee stock options and will continue to record compensation expense only if the exercise price of each option is less than the market value at the date immediately preceding the grant. The Company was not impacted by the requirements to determine the fair value of certain other stock-based transactions.

The Company is required, under the new standard, to disclose pro forma net earnings and pro forma earnings per share as if the fair value based method of accounting had been used to account for stock options granted to employees. This method of accounting uses an option-pricing model to determine the fair value of stock options granted and the amount is amortized over the period the employee services are rendered (see Note 10 (f)).

2. AGREEMENTS RECEIVABLE

Agreements receivable are due within one year except for $6,890,000 (2001 - $3,981,000) which is due in 2004. Subsequent to the interest adjustment date, which provides an interest relief period of four months to registered builders, these receivables earn interest at prime plus one percent (5.5% at December 31, 2002 and 5.0% at December 31, 2001) and are secured by the specific real estate sold. Agreements receivable relate primarily to land sales in Alberta and, accordingly, collection risk is related to the economic conditions of that region.

3. LAND HELD FOR FUTURE DEVELOPMENT

($000's)	2002	2001
Land and carrying costs	**60,560**	46,149
Deposits on land purchases	**9,405**	–
Pre-development costs	**14,800**	6,948
	84,765	53,097

During the year the Company purchased land in the amount of $34,230,000 (2001 - $7,443,000) and received vendor financing in the amount of $10,286,000 (2001 - $3,963,000). At December 31, 2002, the Company made cash deposits on land purchases of $9,405,000 that closed subsequent to year end.

4. CAPITAL ASSETS

($000's)	2002			2001		
	Cost	**Accum. Depn.**	**Net Book Value**	Cost	Accum. Depn.	Net Book Value
Commercial properties	**40,854**	**(4,292)**	**36,562**	35,119	(3,931)	31,188
Manufactured home community and related assets	**3,365**	**(303)**	**3,062**	3,351	(256)	3,095
Golf courses and related assets	**5,432**	**(2,644)**	**2,788**	5,343	(2,416)	2,927
Computerware and furniture	**789**	**(506)**	**283**	881	(602)	279
Other buildings and equipment	**31**	**(16)**	**15**	31	(12)	19
	50,471	**(7,761)**	**42,710**	42,710	(7,217)	37,508

During the year, the Company completed the development of one property and purchased three properties including one with an existing mortgage of $1,971,000.

5. BANK OPERATING LOAN

The Company has pledged agreements receivable, specific lot inventory and a general security agreement as collateral for it's credit facility. This facility may be terminated by the bank upon one year's notice. Interest is paid monthly at rates varying from prime plus 0.5% to prime plus 1.0% (5.0% - 5.5% at December 31, 2002 and 5.0% at December 31, 2001).

6. DEBT ON LAND UNDER DEVELOPMENT

Debt on land under development consists of project loans at prime plus 1.25% (5.75% at December 31, 2002 and 5.0% at December 31, 2001) which mature in 2004. Specific real estate, promissory notes, insurance proceeds, a general assignment of agreements receivable and specific development agreements have been pledged as collateral for this debt.

7. DEBT ON LAND HELD FOR FUTURE DEVELOPMENT

($000's)	2002	2001
Agreements payable with interest at the following rates:		
Fixed rates of 4.0% to 7.5%	**16,484**	10,222
Variable rate of prime plus 1.0% to prime plus 1.5% (5.5% and 6.0% at Dec. 31/02 and 5.5% at Dec. 31/01)	**11,887**	1,206
	28,371	11,428
Accrued interest	**389**	199
	28,760	11,627

Specific land held for future development with a book value of $51,173,000 (2001 - $23,595,000) has been pledged as collateral for the above debt. The weighted average interest rate, based on year end balances, is 5.8% (2001 – 5.9%).

The agreements mature in 2003 to 2009 and the minimum principal payments due within each of the next five years are as follows: 2003 – $5,323,000; 2004 – $5,222,000; 2005 – $5,354,000; 2006 – $2,237,000; 2007 – $2,487,000.

8. DEBT ON CAPITAL ASSETS

($000's)	2002	2001
Mortgages amortized over 20 years at rates varying from prime plus .75% to prime plus 1.25% (5.25% - 5.75% at Dec. 31/02 and 4.75% - 5.0% at Dec. 31/01)	**4,002**	3,319
Mortgages amortized over 20 to 25 years at fixed rates varying from 5.82% to 7.82%	**27,168**	13,280
	31,170	16,599

Specific capital assets with a net book value of $33,757,000 (2001 – $20,208,000), assignment of applicable rents and insurance proceeds have been pledged as collateral for the above debt. The weighted average interest rate at December 31, 2002, based on year end balances, is 6.7% (2001 – 6.5%).

Principal payments due within each of the next five years, assuming renewal at similar terms are: 2003 – $1,227,000; 2004 – $1,315,000; 2005 – $1,404,000; 2006 – $1,498,000; 2007 – $1,599,000.

Principal payments due within each of the next five years assuming no renewal are: 2003 – $7,395,000; 2004 – $2,179,000; 2005 – $747,000; 2006 – $7,474,000; 2007 – $971,000.

9. FUTURE INCOME TAXES

($000's)	2002	2001
Capital asset book values in excess of tax values	**2,991**	2,981
Reserve on amounts due in subsequent years	**7,922**	6,116
Interest and other costs deducted for tax purposes	**1,070**	1,109
Tenant leasing costs	**1,586**	956
Other	**3**	348
	13,572	11,510

The timing of payment of future income taxes is dependent upon the timing of development and sale of the related assets and on the timing of the receipt of cash relating to agreements receivable. Income taxes paid during the year were $10,175,000 (2001 - $7,176,000). Income tax expense is calculated as follows:

($000's)	2002	2001
Income tax at statutory rate (2002 - 39.24%; 2001 - 42.11%)	**14,151**	10,434
Increase/(decrease) resulting from:		
Benefit recorded for substantively enacted future tax rate reductions	**(300)**	(1,030)
Non deductible expenses and other	**(877)**	(533)
Income tax expense	**12,974**	8,871

10. SHARE CAPITAL

(a) Common Shares

	2002		2001	
	Number of Shares Issued	**Amount ($000's)**	Number of Shares Issued	Amount ($000's)
Common shares, beginning of the year	**3,045,723**	**6,705**	3,038,903	6,571
Share options exercised	**13,190**	**256**	7,220	135
Shares purchased and cancelled	**(6,800)**	**(15)**	(400)	(1)
Common shares, end of the year	**3,052,113**	**6,946**	3,045,723	6,705

Authorized:

Common shares	10,000,000
First Preferred Shares, non-voting, issued in series	5,000,000

During the year, the Company purchased shares at an average price of $28.03 (2001 - $20.00) per share for total consideration of $190,600 (2001 - $8,000) pursuant to the Normal Course Issuer Bid Circular. The current bid allows the Company to purchase an additional 151,000 shares prior to the expiry of the bid on September 15, 2003.

(b) Stock Option Plan

On September 28, 2000 the Company's Board of Directors approved a stock option plan ("the Plan"). Under the Plan, the Company may grant options to full-time salaried employees and designated contractors after one year of service. The plan requires that the option price shall not be less than the weighted average trading price for the 20 consecutive days during which shares traded on the TSX immediately prior to the granting of the option.The options vest at 20% per year and expire seven years from the date of issuance and may be exercised into common shares on a one-for-one basis.

(c) Options Available for Granting

($000's)	2002	2001
Options available, beginning of the year	**130,400**	143,500
Options granted	**(97,100)**	(15,500)
Options forfeited	**6,600**	2,400
Options available, end of the year	**39,900**	130,400

(d) Options Outstanding Under the Plan

	2002		2001	
	# of Options	Weighted Average Option Price	# of Options	Weighted Average Option Price
Options outstanding, beginning of the year	**162,380**	**18.73**	156,500	18.73
Options granted	**97,100**	**35.65**	15,500	24.28
Options exercised	**(13,190)**	**19.39**	(7,220)	18.73
Options forfeited	**(6,600)**	**24.74**	(2,400)	21.04
Options outstanding, end of the year	**239,690**	**25.72**	162,380	19.23

(e) Options Outstanding and Exercisable Under the Plan

Option Expiry Date	Outstanding Options (#)	Option Price Per Share ($)	Exercisable at Dec. 31, 2002
September 28, 2007	**134,690**	**18.73**	**42,230**
July 26, 2008	**9,500**	**24.28**	**1,900**
July 25, 2009	**12,400**	**38.58**	–
October 25, 2009	**80,000**	**35.30**	–
December 12, 2009	**3,100**	**34.95**	–
	239,690		**44,130**

(f) Pro Forma Earnings Including Stock-Based Compensation Expense

As permitted by CICA Handbook Section 3870 Stock-Based Compensation and Other Stock-Based Payments, the Company has elected to continue recording compensation expense only when the exercise price of stock options granted to employees is less than the market value at the date immediately preceding the grant.

If compensation costs had been determined based on the fair value of the options at the grant date, using the Black-Scholes option-pricing model, additional compensation expense would have been recorded in the statement of earnings for the year, with pro forma results presented below.

	2002
Net earnings as reported	**23,089,000**
Compensation expense	**(27,000)**
Pro forma net earnings	**23,062,000**
Pro forma earnings per share	**7.57**
Pro forma diluted earnings per share	**7.40**

The following weighted-average assumptions were used in the Black-Scholes calculations for stock options granted during the period:

Annualized volatility	18%	Annual Dividend rate	3%
Risk-free interest rate	5%	Expected life of options in years	6.5

11. PER SHARE AMOUNTS

Basic net earnings per share is calculated by dividing the Company's net earnings by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated to give dilutive effect to share options.

	2002	2001
Basic weighted average shares outstanding during the year	**3,046,979**	3,039,101
Exercise of options	**68,466**	26,818
Diluted weighted average shares	**3,115,445**	3,065,919

Weighted average shares for 2001 was calculated based on the date the stock-based compensation plan was approved by the shareholders, May 17, 2001.

12. INTEREST EXPENSE

($000's)	2002	2001
Interest on bank operating loan and other indebtedness	**70**	435
Interest on debt – land	**1,317**	952
Interest on debt – capital assets	**1,270**	1,082
	2,657	2,469
Less interest on land debt capitalized	**(1,127)**	(704)
	1,530	1,765

Cumulative interest capitalized at the end of the year is $4,564,000 (2001 - $4,600,000). Interest paid during the year was $2,457,000 (2001 - $2,448,000).

13. INTEREST RATE RISK

The Company's debt consists of loans that are subject to interest rate fluctuations. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately $175,000 (2001 - $178,000) based upon year end debt balances. This amount is partially offset by the interest earned on agreements receivable which is also subject to interest rate fluctuations.

14. JOINT VENTURES

					CASH FLOWS FROM/(USED IN)		
($000's)	Assets	Liabilities	Revenue	Earnings	Operating Activities	Investing Activities	Financing Activities
2002	**50,034**	**28,785**	**25,947**	**7,325**	**3,867**	**(8,334)**	**6,198**
2001	33,467	17,522	15,507	4,397	2,748	(719)	1,343

The above table includes the Company's proportionate share of the assets, liabilities, revenue, earnings and cash flow information of eleven joint ventures (2001 – eight) that are proportionately consolidated in these financial statements.

15. SEGMENTED INFORMATION

Since the Company is involved in several activities, the financial information supplied in aggregate terms does not provide sufficient information to enable an understanding of the contribution of each activity to the Company as a whole.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business unit requires different management skills and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

In the following schedules, earnings from operations before income tax expense has been calculated for each segment by deducting from revenues of the segment all direct costs and administrative expenses which can be specifically attributed to the segment, as this is the basis for measurement of segment performance. Common costs, which have not been allocated, are the costs of corporate debt and general corporate expenses. The allocation of these costs on an arbitrary basis to the segments would not assist in the evaluation of the segments' contributions.

Inter-segment transactions are entered into under terms and conditions similar to those with unrelated third parties. Any inter-segment sales and the unrealised profits therefrom have been eliminated.

Development

Community Development

This division is responsible for purchasing and developing land to be sold as residential and commercial lots.

Property Development

This division develops income properties which, when completed, are transferred to the Investment Property Division which will hold and manage the asset.

Investment/Recreation Property

Investment Property

The Company owns 19 properties, which it holds to earn rental income.

Recreation Property

The Company owns and manages two 18 hole golf course operations (one of which is 60% owned).

(000's)	2002		2001	
OPERATING SEGMENTS	**Revenue**	**Earnings**	Revenue	Earnings
Community Development	**102,991**	**36,426**	75,138	27,241
Property Development	**13,650**	**1,860**	2,600	242
Investment Property	**7,651**	**1,971**	7,293	210
Recreation Property	**2,908**	**676**	2,701	593
Common interest	**168**	**168**	118	118
Inter-segment eliminations	**(15,087)**	**(2,117)**	(3,827)	(365)
	112,281	**38,984**	84,023	28,039
Interest expense		**(69)**		(435)
Common costs		**(2,852)**		(2,762)
Earnings before income tax expense		**36,063**		24,842
Income tax expense		**(12,974)**		(8,871)
Net earnings for the year		**23,089**		15,971

	Depreciation and amortization		Capital expenditures		Total carrying value of identifiable assets	
($000's)	**2002**	2001	**2002**	2001	**2002**	2001
Community Development	**3**	3	**–**	–	**176,025**	134,238
Property Development	**–**	–	**1,796**	6,968	**61**	7,938
Investment Property	**549**	475	**5,152**	4,525	**44,915**	30,150
Recreation Property	**249**	263	**120**	379	**2,994**	3,090
Common	**105**	91	**108**	102	**7,800**	1,802
	906	832	**7,176**	11,974	**231,795**	177,218

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments consists of cash and cash equivalents, accounts receivable, agreements receivable, bank operating loan, accounts payable and accrued liabilities, debt on land under development, debt on land held for future development and debt on capital assets. The Company believes that the fair value of financial instruments approximates their carrying values. The fair value of cash and cash equivalents, accounts receivable, bank operating loan, accounts payable and accrued liabilities approximate their carrying value due to their short-term nature. The fair value of debt on land under development, debt on land held for future development and debt on capital assets are estimated based on quoted market rates for similar instruments with similar terms.

17. DEFINITIONS FOR STATEMENTS OF CASH FLOWS

Development activities is defined as the net of land held for future development before purchases of land, land under development and provision for land development costs. Change in other operating assets and liabilities is defined as the net of accounts receivable, other assets and accounts payable and accrued liabilities.

18. COMPARATIVE FIGURES

Where applicable, the comparative figures have been reclassified to conform to the current year's financial statement presentation.

Management's Responsibility for Financial Reporting

The Annual Report, including the consolidated financial statements, is the responsibility of the management of the Company. The financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public Real Estate Companies in all material respects. Financial information contained elsewhere in this Report is consistent with the information contained in the financial statements.

Management maintains a system of internal controls which provides reasonable assurance that the assets of the Company, its subsidiaries and joint ventures are safeguarded and which facilitates the preparation of relevant, timely and reliable financial information which reflects, where necessary, management's best estimates and judgements based on informed knowledge of the facts.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities and for final approval of the consolidated financial statements. The Board has appointed an Audit Committee comprising four unrelated and independent directors to approve, monitor, evaluate, advise or make recommendations on matters affecting the external audit, the financial reporting and the accounting controls, policies and practices of the Company under its terms of reference.

The Audit Committee meets at least four times per year with management and with the independent auditors to satisfy itself that they are properly discharging their responsibilities. The consolidated financial statements and the Management Discussion and Analysis have been reviewed by the Audit Committee and approved by the Board of Directors of Melcor Developments Ltd.

PricewaterhouseCoopers LLP, independent external auditors appointed by the shareholders, have examined the consolidated financial statements and have read Management's Discussion and Analysis. Their report as auditors is set forth below.

Auditors' Report

To the Shareholders of Melcor Developments Ltd.

We have audited the consolidated balance sheets of Melcor Developments Ltd. as at December 31, 2002 and 2001 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Edmonton, Alberta
February 21, 2003

Land and Property Holdings

LAND INVENTORY

	Land Under Development			Land Held for Future Development
	Residential Lots	Residential Acres	Commercial / Industrial Acres	Total Acres
NORTHERN ALBERTA				
Edmonton	234	2	21	783
County of Parkland/Spruce Grove	70	3	15	1,116
Leduc	4	2	22	314
St. Albert	19	–	–	89
County of Strathcona	5	–	–	–
SOUTHERN ALBERTA				
Calgary	12	–	3	401
M.D. Rockyview/Airdrie	–	–	–	1,425
Chestermere	91	4	7	163
Lethbridge	56	–	–	323
CENTRAL ALBERTA				
Red Deer	120	–	–	312
CENTRAL BRITISH COLUMBIA				
Kelowna	–	–	–	119
ARIZONA				
Phoenix	–	–	–	5
Tucson	2	–	–	147
DECEMBER 31, 2002	613	11	68	5,197
DECEMBER 31, 2001	859	22	33	4,378

INVESTMENT / RECREATION PROPERTIES

Buildings	Year Acquired	Rental Area (sq. ft.)	% Leased
BUILDINGS			
EDMONTON, AB			
Melton Building	1973	112,933	72
Corinthia Plaza (Leduc, AB)	1975	23,143	74
Westcor Building	1978	70,835	100
Princeton Place	1999	58,585	65
Capilano Centre (*)	1999	98,456	75
Trans Alta Place	2000	47,096	85
Birks Building	2001	32,464	66
Westgate Business Centre	2001	63,871	97
Glentel Building	2002	15,968	100
Associated Centre	2002	78,435	92
CALGARY, AB			
Kensington Road Building	1980	23,851	100
Crowfoot Business Centre	2002	68,623	84
REGINA, SK			
Albert Street Building	1979	6,150	100
University Park Shopping Centre	1981	41,194	93
		741,604	83

Other Properties	
MANUFACTURED HOME COMMUNITY	
CALGARY, AB	
Watergrove (*) (308 units / 100% leased)	1995
LAND SITES	
EDMONTON, AB	
104 Street Parking Lot #1	2001
104 Street Parking Lot #2	2002
CALGARY, AB	
One Acre Land Lease	1999
9th Street Site	1980
GOLF COURSES	
EDMONTON, AB	
The Links at Spruce Grove	1983
Lewis Estates Golf Course (*)	1997

Note: (*) Joint Venture

Five Year Review

Balance Sheet ($000s)

	2002	2001	2000	1999	1998
Assets					
Cash and cash equivalents	**7,105**	1,325	1,181	8,404	11,544
Accounts receivable	**2,914**	2,912	1,980	1,761	3,140
Agreements receivable	**57,094**	43,704	34,927	30,574	32,934
Land under development	**32,139**	35,558	43,796	37,443	35,287
Land held for future development	**84,765**	53,097	48,240	49,808	48,263
Capital assets	**42,710**	37,508	26,390	23,973	21,018
Prepaid and other assets	**5,068**	3,114	2,272	1,387	1,404
	231,795	177,218	158,786	153,350	153,590
Liabilities and Shareholders' Equity					
Bank operating loan	**839**	11,929	14,088	–	–
Accounts payable and accrued liabilities	**16,410**	11,116	7,443	7,109	8,937
Bank term loan	**–**	–	–	–	1,900
Provision for land development costs	**13,763**	6,371	10,587	9,588	12,285
Debt on land under development	**770**	1,348	386	13,823	12,719
Debt on land held for future development	**28,760**	11,627	10,374	12,128	12,337
Debt on capital assets	**31,170**	16,599	12,181	14,528	13,316
Future income taxes	**13,572**	11,510	10,842	10,597	11,133
Share capital	**6,946**	6,705	6,571	6,712	6,777
Retained earnings	**119,565**	100,013	86,314	78,865	74,186
	231,795	177,218	158,786	153,350	153,590

Statement of Earnings ($000s)

	2002	2001	2000	1999	1998
Revenue	**110,565**	82,607	61,221	46,563	57,661
Cost of sales	**(67,630)**	(50,612)	(37,196)	(27,782)	(34,666)
	42,935	31,995	24,025	18,781	22,995
Interest income	**1,716**	1,416	1,149	1,658	1,337
Interest expense	**(1,530)**	(1,765)	(1,538)	(1,276)	(1,485)
General and administrative expenses	**(8,062)**	(6,838)	(5,822)	(5,069)	(5,452)
Gain on sale of capital assets	**1,004**	34	479	18	61
Earnings before income tax expense	**36,063**	24,842	18,293	14,112	17,456
Income tax expense	**(12,974)**	(8,871)	(7,663)	(6,345)	(7,797)
Net earnings for the year	**23,089**	15,971	10,630	7,767	9,659

Statistical ($)

		2002	2001	2000	1999	1998
Earnings per share	- basic	**7.58**	5.26	3.48	2.50	3.05
Cash flow per share	- basic	**8.22**	5.74	3.64	2.58	3.55
Number of shares	- year end (000's)	**3,052**	3,046	3,039	3,104	3,134
Shareholders equity	- book value per share	**41.45**	35.04	30.57	27.57	25.83
	- total ($000s)	**126,511**	106,718	92,885	85,577	80,963
Dividends	- per share	**1.00**	.90	.80	.70	.60
Share price range	- per share	**26.50-42.50**	20.00-28.50	17.00-20.25	16.05-19.75	15.50-21.50

Segmented Operating Review

($000s)	**2002**	2001	2000	1999	1998
Community Development Division					
Revenue	**101,422**	73,778	56,554	41,582	50,279
Cost of sales	**(62,567)**	(44,746)	(34,480)	(25,308)	(31,178)
	38,855	29,032	22,074	16,274	19,101
Interest revenue	**1,569**	1,360	1,012	1,289	774
Interest expense	**(252)**	(328)	(205)	(100)	(148)
	40,172	30,064	22,881	17,463	19,727
Administrative expenses	**(3,746)**	(2,823)	(3,242)	(2,812)	(2,733)
Earnings	**36,426**	27,241	19,639	14,651	16,994
Property Development					
Interdivisional sale	**13,650**	2,600	–	–	–
Cost of sale	**(11,533)**	(2,230)	–	–	–
Gross earnings	**2,117**	370	–	–	–
Administrative expenses	**(257)**	(128)	–	–	–
Earnings	**1,860**	242	–	–	–
Investment Property Division					
Rental operations	**7,651**	6,218	4,857	4,123	3,955
Land sales	**–**	1,075	–	–	1,617
Total operating revenue	**7,651**	7,293	4,857	4,123	5,572
Operating expenses	**(4,702)**	(3,834)	(2,854)	(2,065)	(1,722)
Interest expense	**(1,219)**	(1,017)	(994)	(1,077)	(1,139)
Cost of land sales	**–**	(1,579)	–	–	(1,176)
Total operating costs	**(5,921)**	(6,430)	(3,848)	(3,142)	(4,037)
Earnings from operations	**1,730**	863	1,009	981	1,535
Gain on sale of capital assets	**991**	–	464	–	–
	2,721	863	1,473	981	1,535
Administrative expenses	**(201)**	(178)	(460)	(161)	(218)
Depreciation expense	**(549)**	(475)	(390)	(489)	(411)
Asset valuation adjustment	**–**	–	–	–	–
	(750)	(653)	(850)	(650)	(629)
Earnings	**1,971**	210	623	331	906
Golf Courses					
Revenue	**2,908**	2,701	2,630	2,509	2,493
Operating costs	**(1,414)**	(1,293)	(1,280)	(1,347)	(1,274)
	1,494	1,408	1,350	1,162	1,219
Interest expense	**(52)**	(65)	(70)	(127)	(156)
Administrative expenses	**(529)**	(518)	(516)	(472)	(464)
Depreciation expense	**(249)**	(263)	(258)	(273)	(256)
Gain on sale of capital assets	**12**	31	15	–	–
Earnings	**676**	593	521	290	343

Corporate Information

CORPORATE OFFICE
900, 10310 Jasper Avenue
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general@melcor.ca
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DIRECTORS
William D. Grace (1) (2)
Corporate Director
Edmonton, Alberta

W. Garry Holmes (1)
Corporate Director
Edmonton, Alberta

Lou D. Hyndman, Q.C. (1) (2)
Partner
Field Atkinson Perraton,
Barristers & Solicitors
Edmonton, Alberta

Andrew J. Melton
Partner
Avison Young Commercial Real Estate
Calgary, Alberta

Timothy C. Melton
Executive Chairman
Melcor Developments Ltd.
Edmonton, Alberta

Bruce Saville (2)
President
Saville Group
Edmonton, Alberta

Robert Stollery (1) (2)
Corporate Director
Edmonton, Alberta

Ralph B. Young
President & Chief
Executive Officer
Melcor Developments Ltd.
Edmonton, Alberta

Other Information

Share Transfer Agent, CIBC Mellon Trust Company, Calgary & Toronto

Stock Exchange Listing, The Toronto Stock Exchange (Stock symbol: MRD)

Auditors, PricewaterhouseCoopers LLP, Chartered Accountants, Edmonton

OFFICERS
Timothy C. Melton (3)
Executive Chairman

Ralph B. Young (3)
President & Chief Executive Officer

Michael D. Shabada (3)
Vice-President, Finance and
Chief Financial Officer

Brett A. Halford (3)
Vice-President, Administration

W. Peter Daly (3)
Vice-President,
Land Development Division

Committees
- **(1)** Audit
- **(2)** Corporate Governance & Compensation
- **(3)** Management

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Divisional Manager

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Bryan A. Copp
Pro / Manager

Tom Van Tetering
Superintendent

FINANCE AND ADMINISTRATION
Karen Albarda
Manager, Accounting Department

Melcor 2002 Performance Measures (selected)

	1998	% change	1999	% change	2000	% change	2001	% change	**2002**
ASSETS ($000) Average annual increase = 12.7%	153,590	-0.2%	153,350	3.5%	158,786	11.6%	177,218	30.8%	**231,795**
SHAREHOLDERS' EQUITY ($000) Average annual increase = 14.1%	80,963	5.7%	85,577	8.5%	92,885	14.9%	106,718	18.5%	**126,511**
REVENUE ($000) Average annual increase = 22.9%	57,661	-19.2%	46,563	31.5%	61,221	34.9%	82,607	33.8%	**110,505**
GROSS MARGIN Five year average = 39%	40%		40%		39%		39%		**39%**
ADMIN. EXPENSES / REVENUE Five year average = 7.6%	8.2%	11.2%	9.1%	-9.0%	8.3%	-12.3%	7.3%	-11.0%	**6.5%**
EARNINGS (EBT) ($000) Average annual increase = 27%	17,456	-19%	14,112	30%	18,293	36%	24,842	45%	**36,063**
BASIC EARNINGS PER SHARE ($) Average annual increase = 37%	3.05	-18%	2.50	40%	3.50	50%	5.26	44%	**7.58**
AVERAGE SHARE PRICE ($) Average annual increase = 25%	18.19	-4%	17.44	4%	18.09	37%	24.79	48%	**36.60**
DIVIDEND ($) Average annual increase = 16.7%	0.60	16.7%	0.70	14.3%	0.80	12.5%	0.90	11.1%	**1.00**
DIVIDEND YIELD Five year average = 3.5%	3.3%		4.0%		4.4%		3.6%		**2.7%**
BOOK VALUE PER SHARE ($) Average annual increase = 15.1%	25.83	6.7%	27.57	10.9%	30.57	14.6%	35.04	18.3%	**41.45**
AVERAGE BV PER SHARE ($) Average annual increase = 14%	24.46	9%	26.70	9%	29.07	13%	32.81	17%	**38.25**
AVG. MARKET / AVG. BOOK Five year average = 0.76	0.74		0.65		0.62		0.76		**0.96**
PRICE EARNINGS RATIO Five year average = 5.3	6.0		7.0		5.2		4.7		**4.8**
RETURN ON EQUITY Five year average = 14.4%	12.5%		9.3%		11.9%		16.0%		**19.8%**
RETURN ON ASSETS Five year average = 8.2%	6.9%		5.1%		6.8%		9.5%		**11.3%**
DEBT / EQUITY RATIO Five year average = 0.78	0.90		0.79		0.71		0.66		**0.83**
ASSET TURNOVER Five year average = 43.6%	40.9%		30.3%		39.2%		49.2%		**54.1%**

Melcor's Asset Base

Melcor has an asset base with a historic cost and with inventory levels which will allow for long term revenue streams and acceptable financial margins.

Melcor's land development asset base is comprised of 5,197 acres of undeveloped lands with a cost base of $69,965,000 or about $13,500 per acre.

Approximately 2,780 acres of this land is considered to be long term and is carried at a low cost base.

Melcor's revenue asset base is comprised of 14 buildings with 692,376 square feet of leasable space and a cost base of $34,546,000 or $50 per foot adjusted for joint venture interests. The other revenue assets, including the land lease, the manufactured home community and the golf courses, have a cost base of $7,866,000 net of joint venture interests. Together, they generated revenue of $10,518,000 and contributed $2,536,000 towards earnings before income taxes.

MELCOR
DEVELOPMENTS LTD.